

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, February 20, 2008

MEETING NO. 352

Members present:

Thomas Barnes
Michael Freeman
James Larkin, Chairman
William Murray
Denise L. Nappier, Treasurer
David Roth
Carol Thomas
Peter Thor

Absent:

Sharon Palmer
Thomas Fiore, representing Robert Genuario
David (Duke) Himmelreich

Others present:

Howard G. Rifkin, Deputy Treasurer
Lee Ann Palladino, Acting Chief Investment Officer
Gregory Franklin, Assistant Treasurer-Investments
Av Harris, Deputy Director of Communications
David Holmgren, Principal Investment Officer
Wayne Hypolite, Executive Assistant
David Johnson, Principal Investment Officer
Donald Kirshbaum, Investment Officer
Meredith Miller, Assistant Treasurer-Policy
Christine Palm, Deputy Director of Communications
Else Taylor, Executive Secretary
Linda Tudan, Executive Assistant

Guests:

Joseph Barcic, Mercer Investment Consulting
Makaiya Brown, Mercer Investment Consulting
Harvey Kelly, Leumas Advisors
Jacqueline Lyons, State Street Corporation
Julie Nauncheck, CSEA Retiree Council, #400
Richard Nuzum, Mercer Investment Consulting
Thomas Poppey, State Street Corporation
Claire Shaughnessy, RogersCasey, Inc
Johnson Shum, State Street Bank
Cynthia Steer, RogersCasey, Inc.

Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:02 A.M.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the December 12, 2007 IAC Meeting. **There being no comments, a motion was made by Peter Thor, seconded by Carol Thomas, that the Minutes of the December 12, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Chairman Larkin asked Deputy Treasurer Howard Rifkin to give an update on the Pension Obligation Bond ("POB"). Mr. Rifkin reported that on January 25, 2008 the State Bond Commission approved the sale of a \$2 billion POB for the Teachers' Retirement Fund ("TERF"). He further stated that the Treasurer has appointed Bear Sterns and Merrill Lynch as co-lead transaction managers and that a kickoff meeting was held by all interested parties to move this transaction forward.

Comments by the Treasurer

Treasurer Denise Nappier began her remarks by welcoming all present to the first IAC meeting of 2008. Following up on the remarks by Mr. Rifkin, Treasurer Nappier offered some brief comments on the landmark achievement of the \$2 billion POB, noting that it was a large step toward fulfilling the retirement benefit obligations to Connecticut's teachers. She reiterated that a key element of the POB legislation was that the bond covenant would require the State of Connecticut to make full payment of the annual actuarially recommended contribution throughout the life of the bond.

Treasurer Nappier stated she was pleased to provide an update on two important events. She reported that investors gathered at the third Investor Summit on Climate on February 14, 2008 to discuss the scale and urgency of climate change risks as well as the economic opportunities. Treasurer Nappier continued that since the first summit in 2003, there has been a sea-change of sentiment toward climate risk. Further, she stated, as with the last two summits, a group of institutional investors, including the Connecticut Retirement Plans and Trust Funds ("CRPTF") presented a Call to Action. As part of this action, Treasurer Nappier said that investors will continue to urge the Securities and Exchange Commission ("SEC") to require disclosure on climate change, and to take into consideration climate risk and environmental factors as part of the investment decision making process when hiring money managers. She then informed the IAC that on February 5, 2008 over 450 high school students attended a conference co-sponsored by the Office of the Treasurer ("OTT") and University of Connecticut's ("UCONN") Center for Economic Education entitled "Your Dollar, Your World". Treasurer Nappier indicated that the conference, held at UCONN, showcased the Treasury's initiatives of financial literacy, shareholder activism and climate change.

Treasurer Nappier announced that Raudline Etienne, lead consultant at RogersCasey, Inc. ("RogersCasey") had left the firm and accepted the position of Chief Investment Officer of the New York Common Fund. Treasurer Nappier praised Ms. Etienne for the role she played in the many achievements realized by the CRPTF during her tenure as lead consultant. Treasurer

Nappier then introduced the new lead consultant at RogersCasey, Claire Shaughnessy, who spoke briefly about her background and work at RogersCasey.

Turning to the agenda for today's meeting, Treasurer Nappier noted this will be the first month to review the performance reports for each of the plans and trusts in conformance with the newly adopted Investment Policy Statement ("IPS").

Treasurer Nappier then offered some brief comments on the currency overlay presentation. She stated that representatives of Mercer Investment Consulting ("Mercer") would provide an educational overview of the currency overlay program, using the presentation given by RogersCasey in July 2007 as a starting point.

Treasurer Nappier concluded her remarks by noting that quarterly reports would be provided for the Securities Lending program, Domestic Equity Brokerage ("DEB") program and Corporate Governance and MacBride Compliance.

Michael Freeman thanked the Treasurer and her staff for all their efforts to successfully bring the POB to market. Treasurer Nappier also took this opportunity to thank IAC members, with special thanks to members representing the teachers, including, Mr. Freeman, William Murray, Ms. Thomas and Sharon Palmer, for their long-term commitment to help pursue POB legislation.

Plans and Trust Funds Final Performance for November 2007

Lee Ann Palladino, Acting Chief Investment Officer, began her remarks by discussing the changes in performance reporting since the adoption of the IPS. Ms. Palladino reported on the Combined Investment Funds ("CIF"), noting that the combined benchmark and asset allocation targets are no longer included as part of this report. She pointed out that two of the funds, International Stock Fund and Mutual Fixed Income Fund, have been disaggregated. Ms. Palladino stated that the purpose of the fund disaggregation was to look at the risk and return profile of the individual asset classes that previously made up these two funds, allowing for more flexibility in setting asset allocation targets for the plans and trusts. Ms. Palladino reviewed the performance of the CIF for November, 2007 noting that for fiscal year to date, the return of the CIF was 1.42%. She discussed each of the disaggregated individual funds and stated that going forward, performance and benchmarking will be calculated and presented for each plan and trust on a quarterly basis.

Ms. Palladino reviewed the strategic decisions which determined the asset allocations for five of the plans: TERF, State Employees' Retirement Fund ("SERF"), Connecticut Municipal Employees' Retirement Fund ("MERF"), Probate Judges and Employees' Retirement Fund ("Probate Judges"), and State Judges' Retirement Fund ("State Judges"). Further, she stated that two portfolio asset allocation structures were created: "B/C" and "D/E", which represent two distinct asset allocation choices. For both portfolio asset allocation structures, Ms. Palladino discussed the changes in asset allocation, the level of risk and the projected return. Overall, she stated, the B/C asset allocation was a lower risk profile and this asset allocation was assigned to MERF, Probate Judges and the State Judges, as these plans are nearly fully funded and the objective of this allocation was to preserve the corpus of the plans. Ms. Palladino continued that

portfolio "D/E" had a slightly higher risk profile, but also a higher return potential; this asset allocation was assigned to SERF and TERF. She said that these plans have a higher unfunded status and the objective of this allocation was to allow for a higher return potential to reduce the gap in the unfunded status.

Ms. Palladino noted that the five plans with newly adopted asset allocation targets represent over 99 percent of the assets under management. Ms. Palladino stated that the special projects consultant, RogersCasey, along with staff, is reviewing the asset allocation targets for the remaining nine plans and trusts. For the record, Ms. Palladino reviewed each of the remaining nine plans and trusts and discussed the IPS asset allocation targets and the benchmarks.

Ms. Palladino finished her remarks by giving an update on the markets. She discussed the continued volatility of the domestic and international stock markets, the 225 basis points of federal funds rate cut since September, and gave an update on the performance of the international and domestic equity funds for December and January.

Update on the Currency Overlay Program

Joseph Barcic, Rich Nuzum and Makaiya Brown, Mercer representatives, presented the CRPTF's Currency Overlay Program to the IAC. Ms. Brown stated that this was an educational presentation, providing an overview on the merits of the currency overlay strategy and reporting on the changes that have been made to the program since July, 2007. Ms. Brown said that the CRPTF had two active currency overlay managers, Bridgewater Associates ("Bridgewater") and The Bank of New York ("BoNY"), and that Bridgewater ended its mandate with the CRPTF in September 2007. She continued that the Bridgewater mandate is now passively managed by BoNY. Mr. Nuzum spoke about the currency transactions, reviewed the CRPTF's currency overlay strategy, quarterly performance and the impact of currency exposure.

The representatives from Mercer responded to questions from the IAC members regarding the techniques of passive currency overlay management; the definition of a foreign currency contract and how it is implemented; the importance of selecting appropriate active currency overlay managers; and how to determine how much of the differential performance is affected by active management, as opposed to simply employing passive management. IAC members also asked Mr. Nuzum about the associated costs of active versus passive management, and the recommended frequency for reviewing our currency overlay strategy. The representatives from Mercer answered all questions to the satisfaction of the IAC members, and Mr. Larkin thanked and commended them for a very educational presentation.

Securities Lending Review

Thomas Poppey and Johnson Shum of State Street Corporation ("SSC") reported on the CRPTF's Securities Lending program for the quarter ending December 31, 2007. Mr. Shum's report included the CRPTF's earnings and performance results, the portfolio characteristics and sector breakdown for the period July 2006 to December 2007.

In response to questions from IAC members regarding sub prime exposure and United Kingdom ("UK") securities within the program, Mr. Shum discussed the merits of the UK investments and the lack of sub prime-like loans in that country.

Domestic Equity Brokerage Program Report

David Holmgren, Principal Investment Officer, reported on the DEB program initiative for the quarter ending September 30, 2007. He discussed the highlights of the DEB program, including the total DEB commissions generated since the program's inception; the average commissions currently paid; and the fifty DEB broker/dealers that currently receive business from the CRPTF.

Report on the Corporate Governance and MacBride Compliance

Meredith Miller, Assistant Treasurer-Policy, reported on Corporate Governance and MacBride Compliance for the quarter ending September 30, 2007. Ms. Miller stated that the report covers a range of corporate governance activities including actual votes cast and shareholder resolutions initiated by the OTT for the 2007 proxy season. For the period of July 1, 2007 through September 30, 2007, according to Ms. Miller, there were 456 domestic proxies cast on behalf of the CRPTF, of which 30.5% of the proxy issues were voted against management. She indicated that for the same quarter, there were 306 international proxies cast, of which 10.7% were voted against management. Ms. Miller also noted that the Policy Unit is continuing a dialogue with several companies on corporate governance and corporate responsibility issues for 2008. She further stated that the SEC held an open meeting on November 28, 2007, during which it voted 3-1 to adopt the "short rule" on access to the proxy. She explained that the "short rule" blocks the ability of shareholders to file proposals asking for proxy access, or investors' right to nominate outside directors to sit on boards of companies regarding investment performance. Ms. Miller also reported that independent monitoring during the quarter supported the Policy Unit's findings that there were no violations of the MacBride statute.

Comments by Chairman Larkin

Mr. Larkin drew the IAC's attention to the letter to Governor Jodi Rell, included in the Treasurer's Annual Report and signed by Mr. Larkin and Clarence Roberts, former IAC Chairman. He stated that the CRPTF's return of 17.34% was a significant accomplishment achieved by the OTT.

Other Business

Mr. Larkin invited IAC members to submit agenda items for the March 12, 2008 meeting. In response to Mr. Larkin's opening the floor to further business, Mr. Rifkin introduced Av Harris and Christine Palm as the Treasury's new communications team.

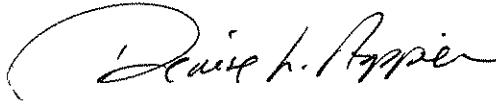
There being no further business, the meeting was adjourned at 11:20 A.M.

An audio tape of this meeting was recorded.

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Respectfully submitted,

A handwritten signature in cursive script, reading "Denise L. Napier".

DENISE L NAPIER
SECRETARY

A handwritten signature in cursive script, reading "J. T. Larkin".

Reviewed by
JAMES T. LARKIN
CHAIRMAN